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S NEST PASS COAL COMPANY, LIMITED

FERNIE, BRITISH COLUMBIA

(ESTABLISHED 1897)

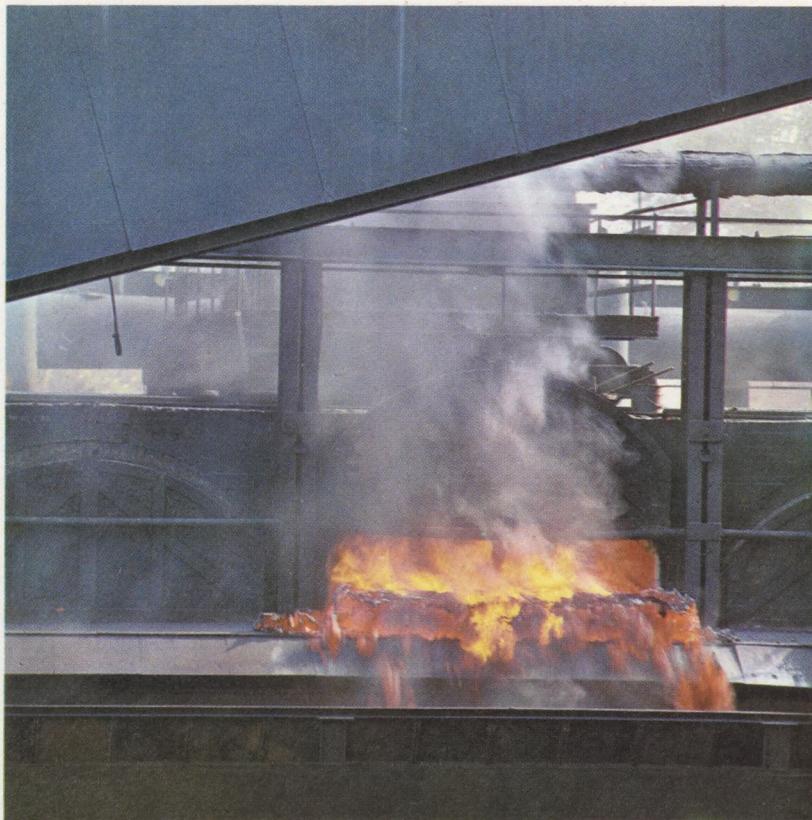
Sixty-Eighth Annual Report for the Year Ended December 31st 1964





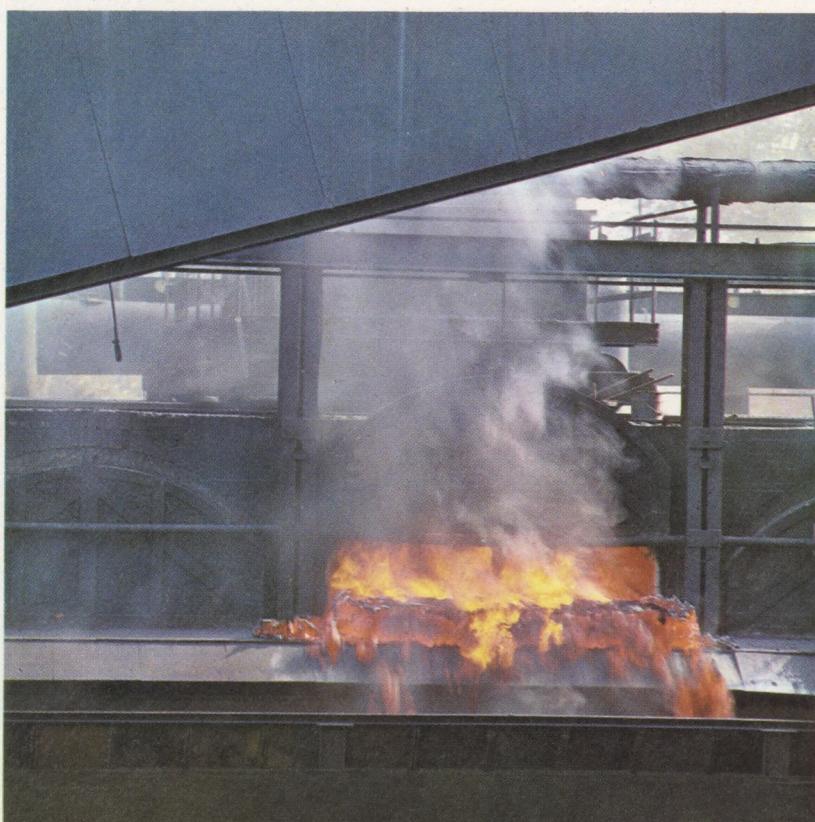
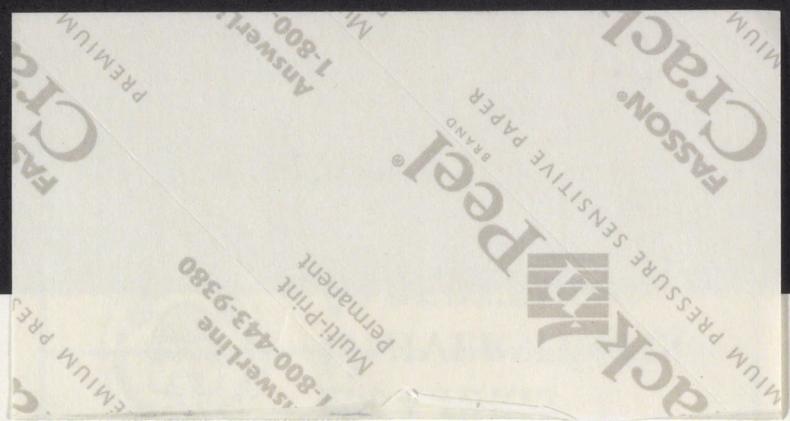
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Prairie Provinces Collection



Strip mine operations form an integral part of our production. Since 1947 we have obtained over 3,000,000 tons of strip coal.

Our by-product coke ovens continue to be an important part of our operations. Shown is a charge of coke being pushed onto the quenching conveyor.



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THE CROW'S NEST PASS COAL COMPANY, LIMITED

*Head Office,
Fernie, B.C.*



Board of Directors

T. F. GLEED	H. C. JUDD
T. G. EWART	J. W. PITTS
C. A. ECKART	F. D. PRATT
C. O. JENKS	D. E. SKINNER

Officers

T. F. GLEED -----	<i>President* and Chairman</i>
T. G. EWART -----	<i>President†</i>
F. D. PRATT -----	<i>First Vice-President</i>
C. A. ECKART -----	<i>Second Vice-President</i>
J. F. CLEEVE -----	<i>Vice-President—Finance</i>
J. E. MORRIS -----	<i>Vice-President—Mines</i>
W. R. PRENTICE -----	<i>Vice-President—Forest Products and Sales Administration</i>

Auditors

CLARKSON, GORDON & Co.
Calgary, Alberta

Transfer Agents

CANADA PERMANENT TRUST COMPANY
Toronto, Ontario

BANKERS TRUST COMPANY
New York, N.Y.

Registrars

NATIONAL TRUST COMPANY, LIMITED
Toronto, Ontario

MANUFACTURERS HANOVER TRUST COMPANY
New York, N.Y.

†Resigned October 1, 1964.

*Appointed October 1, 1964.

THE CROW'S NEST PASS COAL COMPANY, LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Five-Year Summary of Comparative Highlights

	1960	1961	1962	1963	1964
Sales of all products -----	\$6,888,989	\$8,465,144	\$8,260,924	\$8,580,081	\$8,868,843
Production — coal (tons) -----	672,705	792,050	732,789	756,284	834,234
— coke (tons) -----	131,422	140,344	136,124	134,370	131,689
— breeze (tons) -----	14,838	15,806	9,318	11,395	12,518
— lumber (fbm) -----	7,512,734	13,178,458	15,463,727	17,435,569	24,275,253
— oil (bbls) -----	264,733	263,877	224,314	230,492	224,063
Net Earnings -----	\$ 622,203	\$ 827,358	\$ 508,377	\$ 720,389	\$1,061,762
Net Earnings per share* -----	80c	\$1.06	65c	93c	\$1.37
Dividends declared† -----	460,785	483,971	461,151	549,503	536,340
Dividends per share* -----	60c	63c	60c	75c	75c
Depreciation and depletion -----	527,547	569,044	744,580	773,931	795,570
Capital expenditures -----	303,709	1,096,412	1,262,015	510,036	2,518,488
Working capital -----	2,756,425	2,373,314	2,048,775	2,109,941	2,192,182
Cash and marketable securities -----	1,535,480	1,219,448	1,107,928	960,831	491,215
Inventories of raw materials and products-----	920,681	963,163	1,043,301	1,110,283	2,257,484
Common shareholders' equity† -----	9,190,692	9,538,954	9,589,430	9,044,193	9,569,615
Equity per common share† -----	\$11.97	\$12.42	\$12.48	\$12.65	\$13.38
Number of employees at year-end -----	842	882	742	754	823
Number of shareholders at year-end					
— Canadian -----	180	171	190	201	247
— Other -----	368	417	442	403	355
Number of common shares outstanding at year-end* -----	776,475	776,850	777,100	777,170	777,170
Percentage held by Canadians -----	17%	13%	12%	12%	17%
Percentage held by Subsidiary Companies --	1%	1%	1%	8%	8%
Other -----	82%	86%	87%	80%	75%

Notes: *Adjusted to present \$8 P.V. shares.

†Excluding shares held by subsidiaries.

THE CROW'S NEST PASS COAL COMPANY, LIMITED

MANAGEMENT'S MESSAGE TO THE SHAREHOLDERS

1964 . . . the sixty-eighth year in our company's history . . . was most interesting.

Except for a non-recurring gain of \$566,840, resulting from the sale of our total interest in The Granby Mining Company Limited, our operation was less profitable than usual, as you will note in the Profit and Loss statement.

While our results for 1964 were less than projected, programs and their implementation promise a potential for an improved return to shareholders. Distributions to common shareholders continued at 75c per share.

Your directors and operating management have been, and are, continuously seeking ways and means to expand opportunities within company resources.

We have acquired all the assets, interests, and undertakings of Knight Lumber Company Limited, East Kootenay Lumber Company Limited, E. C. Letcher Lumber Company Limited, Gold Creek Timber Company Limited and, more recently, St. Marys Lumber Co., Ltd. The values here extend well beyond the importance of increased earnings potential in the addition to our personnel of experienced, capable people of stature.

With particular emphasis on coal reserves, we have been accelerating our program of exploration and appraisal of not only our own lands, but those which could be properly related. Results to date have been more than pleasing and we have every reason to be confident of additions to known values.

In order to further protect our raw materials position, we have made official application for a pulp harvesting license. We are requesting the rights to wood in sufficient quantities to support a 500 ton per day pulp mill. At this writing, our application is still

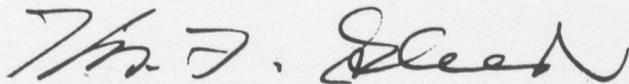
under consideration by the Minister of Lands, Forests and Water Resources for British Columbia.

Arbitration hearings concerning the effects of adverse occupancy by a high-pressure natural gas pipeline on Company lands were not concluded during 1964 and are expected to resume in June of this year.

The retirement of Mr. Thomas G. Ewart as President on October 1, 1964 represented a severe loss. Mr. Ewart has served your Company with distinction for 32 years, the last sixteen as President. We are indeed fortunate that he remains on our board of directors and in addition, will continue to act as a consultant on projects of importance.

Following Mr. Ewart's retirement certain organizational changes were instituted. Mr. John F. Cleeve was appointed Vice President Finance; Mr. James E. Morris, Vice President Mines Division; and Mr. William R. Prentice, Vice President Forest Products Division and Sales Administration. I have accepted the additional responsibility as President and will continue at the pleasure of the directors until our organizational program is completed.

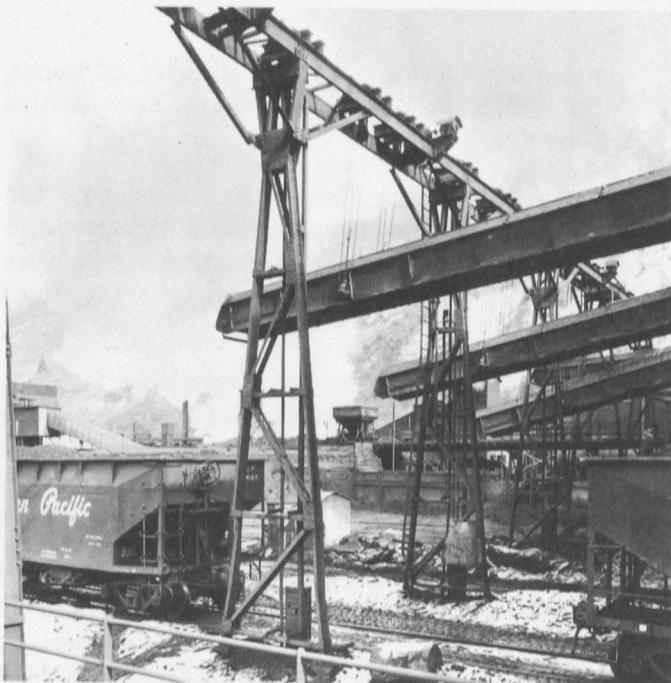
This has been a year of Change and Expansion. While there have been solid accomplishments in mechanization and modernization of our facilities, we will not rest on past achievement.



Chairman and President.

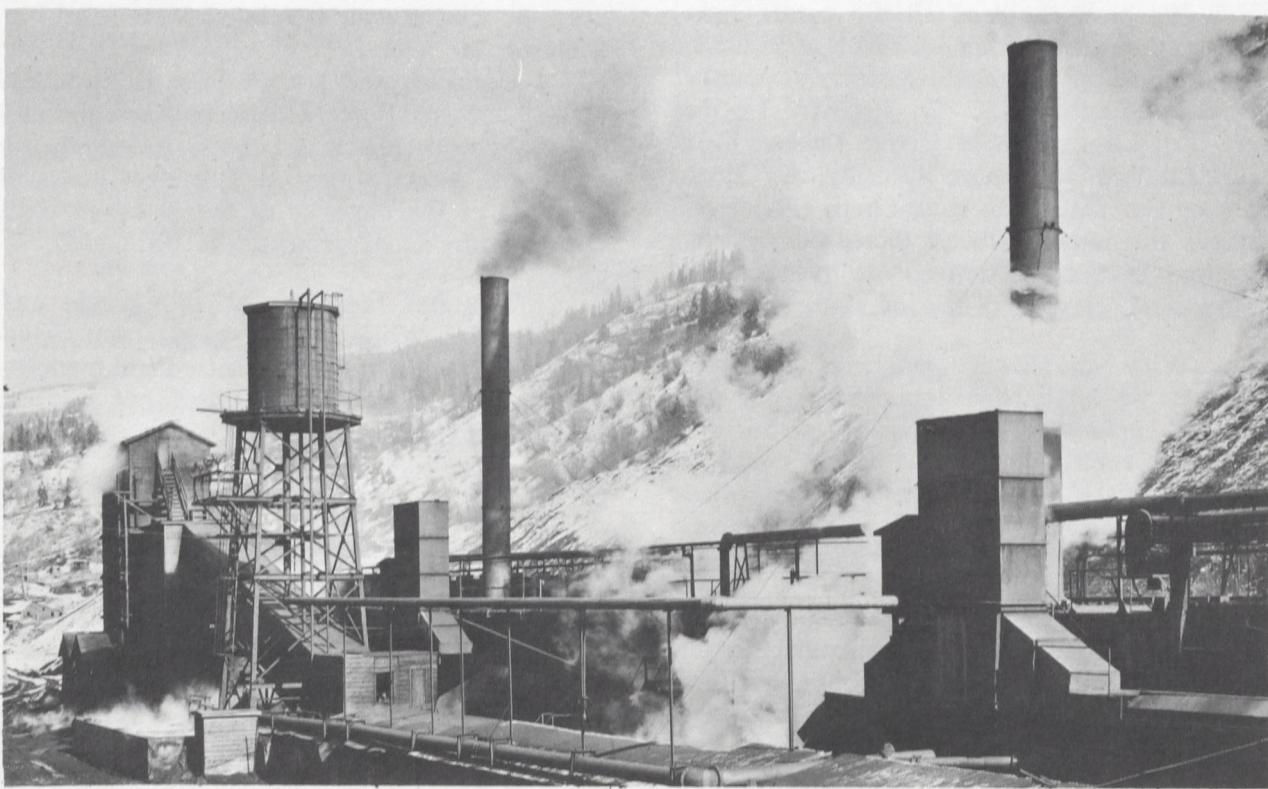
April 2, 1965.

THE CROW'S NEST PASS COAL COMPANY, LIMITED



Coal is loaded direct onto railcars by loading booms at our preparation plant in Michel.

A view of the quenching towers and gas tank at our by-product coke plant.



THE CROW'S NEST PASS COAL COMPANY, LIMITED

FINANCIAL REVIEW

Consolidated sales in 1964 amounted to \$8,868,843, an increase of \$288,762 or 3.4% over the previous year. Coal mined amounted to 834,234 tons as compared with 756,284 tons last year; coke and breeze production was 131,689 tons and 12,518 tons respectively as against 134,370 tons and 11,395 tons in the previous year; lumber sawn amounted to 24,275,253 FBM as compared with 17,435,569 FBM; whilst oil and gas production amount to 224,063 bbls. and 310,043 mcf. respectively as against 230,492 bbls. and 153,866 mcf. in 1963.

Net profit for 1964 amounted to \$1,061,762, or \$1.37 per common share, which includes a special credit of \$566,840, or 73c per common share. Our profit last year was \$720,389, or 93c per common share.

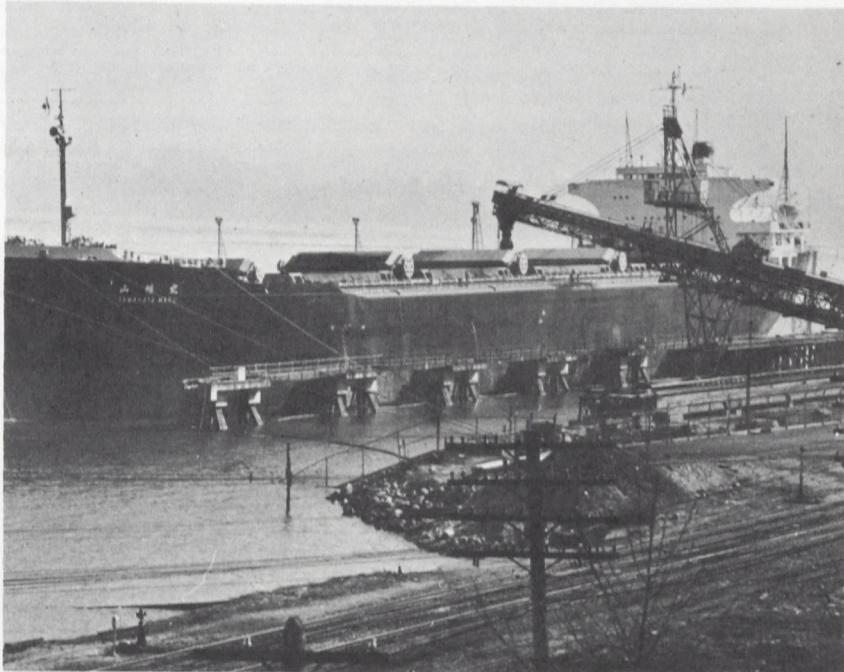
Dividend payments to common shareholders amounted to 75c per share. We are informed that shareholders residing in Canada may not deduct any percentage of the dividends declared and paid in 1964 on account of depletion when computing their Income Tax Returns.

By special resolution dated December 21, 1964, and confirmed by supplementary letters patent dated January 15, 1965, the Company changed its authorized share capital so as to designate the existing shares of \$8 par value as common shares and to authorize 25,000 3% cumulative redeemable preferred shares of \$100 each. During 1964, cash consideration of \$1,300,000 was received for the issuance, in 1965, of 13,000 preferred shares.

During the year working capital increased by \$82,241, and common shareholders' equity from \$12.65 to \$13.38 per share.

The net capital expenditures made by your Company and its wholly-owned subsidiaries during 1964 amounted to \$2,518,488. Expenditures were incurred primarily in connection with the expansion of the operations of our Forest Products Division, the completion of our Blending Plant, and the further mechanization of our surface coal-handling and cleaning facilities.

The largest single shipment of coal ever to leave Vancouver for Japan was recently loaded on board the Yamahatu Mara. Our coal is shown being loaded on this vessel at Port Moody at the rate of 1,000 tons per hour.



THE CROW'S NEST PASS CO.

(Incorporated under the
AND WHOLLY-OWNED SUBSIDIARY)

CONSOLIDATED BALANCE SHEET

December 31, 1963

ASSETS

	1964	1963
CURRENT:		
Cash	\$ 154,111	\$ 764,967
Marketable securities at cost, which approximates market value	337,104	195,864
Accounts receivable	738,906	1,152,853
Accrued interest receivable	3,846	1,818
Inventories valued at the lower of cost or market	2,257,484	1,110,283
Prepaid expenses	138,643	79,426
Total current assets	<u>\$ 3,630,094</u>	<u>\$ 3,305,211</u>
 INVESTMENTS AT COST:		
Market value \$1,446,112 (1963 - \$2,347,087)	<u>\$ 1,467,676</u>	<u>\$ 1,887,984</u>
 FIXED—(Note 1):		
Mines, real estate, plant and equipment less accumulated depreciation of \$13,092,926 (1963 - \$12,497,657)	\$ 5,174,223	\$ 4,639,240
Petroleum and natural gas interests —		
Acquisition cost of properties less depletion of \$244,422 (1963 - \$183,779)	1,013,617	1,071,166
Productive development costs, \$2,064,024 (1963 - \$2,062,334) less amounts written off	1	1
Production equipment less accumulated depreciation of \$606,878 (1963 - \$554,134)	540,290	601,090
Timber cutting rights less accumulated depletion of \$2,764	1,306,284	—
	<u>\$ 8,034,415</u>	<u>\$ 6,311,497</u>
 OTHER:		
Mortgages receivable	114,268	56,254
Refundable deposits	238,629	95,792
Deferred strip mining expenses	242,221	123,046
	<u>\$ 595,118</u>	<u>\$ 275,092</u>
	<u><u>\$13,727,303</u></u>	<u><u>\$11,779,784</u></u>

See accompanying notes to consolidated financial statements.

SS COAL COMPANY, LIMITED

under the laws of Canada)

UNDED SUBSIDIARY COMPANIES

ITED BALANCE SHEET

31, 1964 and 1963

LIABILITIES

CURRENT:

	1964	1963
Bank loans	\$ 164,750	—
Accounts payable and accrued charges	748,864	\$ 485,940
Income and other taxes payable	240,798	395,997
Instalments of loans payable due within one year	283,500	313,333
Total current liabilities	<u>\$ 1,437,912</u>	<u>\$ 1,195,270</u>
LOANS PAYABLE (Note 2)	<u>\$ 354,014</u>	<u>\$ 704,138</u>
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS (Note 3)	<u>\$ 1,065,762</u>	<u>\$ 836,183</u>

SHAREHOLDERS' EQUITY:

Capital (Note 4) —			
Authorized — 25,000 3% cumulative redeemable preferred shares of \$100 par value each			
1,250,000 common shares of \$8 par value each			
Issued or to be issued —			
13,000 preferred shares	\$ 1,300,000	—	
777,170 common shares	6,218,227	\$ 6,218,227	
Paid-in surplus	3,475	3,475	
Surplus allocated for emergency and capital expenditures	1,200,000	1,200,000	
Earned surplus	2,923,397	2,397,975	
	<u>\$11,645,099</u>	<u>\$ 9,819,677</u>	
Less 62,050 shares of parent owned by subsidiary at cost	775,484	775,484	
	<u>\$10,869,615</u>	<u>\$ 9,044,193</u>	

On behalf of the Board:

T. F. GLEED, Director.

F. D. PRATT, Director.

\$13,727,303 \$11,779,784

THE CROW'S NEST PASS COAL COMPANY, LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Consolidated Statement of Profit and Loss and Earned Surplus

FOR THE YEARS ENDED DECEMBER 31, 1964 AND 1963

	1964	1963
Sales of coal, coke, petroleum and forest products	\$ 8,868,843	\$ 8,580,081
Less operating expenses	6,843,161	6,360,336
 Operating profit before the following deductions	 \$ 2,025,682	 \$ 2,219,745
Executive officers' salaries	\$ 89,717	\$ 83,800
Counsel and legal fees	52,895	24,495
Directors' fees	12,000	12,000
Interest on loans payable	44,819	40,885
Depreciation	723,003	707,060
Depletion	72,567	66,871
Exploration and development expenditures written off	127,094	66,665
 Operating profit	 \$ 1,122,095	 \$ 1,001,776
Interest, dividends and other income	\$ 903,587	\$ 1,217,969
 Profit before income taxes	 \$ 1,018,873	 \$ 1,270,049
Income taxes (Note 3)	523,951	549,660
 Profit for the year before special credit	 \$ 494,922	 \$ 720,389
Gain on sale of investments	566,840	—
 Net profit for the year and special credit	 \$ 1,061,762	 \$ 720,389
Earned surplus, beginning of year	2,397,975	2,227,089
 Less dividends declared	 \$ 3,459,737	 \$ 2,947,478
	536,340	549,503
 Earned surplus, end of year	 \$ 2,923,397	 \$ 2,397,975

Statement of Paid-In Surplus

Balance, beginning of year	\$ 3,475	\$ 3,125
Excess of proceeds of sales of shares during the year over par value thereof	—	350
Balance, end of year	\$ 3,475	\$ 3,475

See accompanying notes to consolidated financial statements

THE CROW'S NEST PASS COAL COMPANY, LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Consolidated Statement of Source and Application of Funds

FOR THE YEAR ENDED DECEMBER 31, 1964

SOURCE OF FUNDS:

Operations —	
Net profit for the year and special credit	\$ 1,061,762
Depreciation and depletion	795,570
Income tax reductions applicable to future years	229,579
	<hr/>
Total funds from operations	\$ 2,086,911
Proceeds from issue of preferred shares (Note 4)	1,300,000
Decrease in investments	420,308
	<hr/>
Total funds provided	\$ 3,807,219
	<hr/>

APPLICATION OF FUNDS:

Expenditure on properties, plant and equipment (net)	\$ 2,518,488
Increases in mortgages receivable, refundable deposits and deferred strip mining expenses	320,026
Reduction in loans payable	350,124
Dividends to shareholders	536,340
	<hr/>
Total funds applied	\$ 3,724,978
	<hr/>
Increase in working capital	\$ 82,241
	<hr/>

See accompanying notes to consolidated financial statements.

AUDITOR'S REPORT

To the Shareholders of
The Crow's Nest Pass Coal Company, Limited.

We have examined the consolidated balance sheet of The Crow's Nest Pass Coal Company, Limited and its wholly-owned subsidiary companies as at December 31, 1964 and the consolidated statements of profit and loss and earned surplus, paid-in surplus and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of profit and loss and earned surplus, paid-in surplus and source and application of funds are properly drawn up so as to exhibit a true and correct view of the state of the affairs of The Crow's Nest Pass Coal Company, Limited and its wholly-owned subsidiary companies at December 31, 1964 and the results of their operations for the year then ended and the factors giving rise to changes in the working capital during the year, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Calgary, Alberta.

March 16, 1965.

THE CROW'S NEST PASS COAL COMPANY, LIMITED

AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

DECEMBER 31, 1964

1. Accounting practices:

The companies follow the practice of capitalizing the acquisition costs of oil properties and of charging exploration expenses, carrying charges on properties and the drilling costs of wells against income as incurred. Expenditures on productive wells during 1964 were not material in amount. Depletion of productive oil properties is provided on the unit of production method based on estimated reserves of oil and gas.

Based on the Company's estimate of recoverable reserves of coal, a charge for depletion would be immaterial in amount and accordingly no provision for depletion of coal properties is included in the accounts.

Depreciation of fixed assets is provided on the reducing balance method at rates designed to amortize the costs of these assets over their estimated useful lives.

2. Loans payable:

3 1/2% Coal Production Assistance Act Loan	\$150,000
4 1/2% Coal Production Assistance Act Loan	27,500
5 3/4% bank loans	460,014
	<hr/>
	637,514
Less instalments due within one year included in current liabilities	283,500
	<hr/>
	\$354,014

The Coal Production Assistance Act Loans are secured by chattel mortgages on certain of the Company's mining assets and by the hypothecation of \$175,000 Government of Canada bonds and are repayable at 30c per ton of coal produced from certain mines with minimum annual payments of \$183,333.

The bank loans are payable in monthly instalments by a subsidiary company and are secured by the hypothecation of 62,050 shares of the parent company owned by the subsidiary and by the assignment of the subsidiary company's interests in certain producing oil and gas properties.

3. Income taxes:

The income taxes payable in respect of 1964 amount to \$300,139. The difference of \$223,812 between this and the taxes charged against income results from claiming for tax purposes an amount greater than the depreciation charged in the companies' accounts. This difference is applicable to those future years in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts and is accordingly included in the balance sheet in the item "Accumulated tax reductions applicable to future years."

4. Capital stock:

By special resolution dated December 21, 1964 and confirmed by supplementary letters patent dated January 15, 1965, the Company changed its authorized share capital so as to designate the existing shares of \$8 par value as common shares and to authorize 25,000 3% cumulative redeemable preferred shares of \$100 each.

The consolidated balance sheet gives effect to the issuance of 13,000 preferred shares in 1965, the cash consideration of \$1,300,000 having been received in 1964.

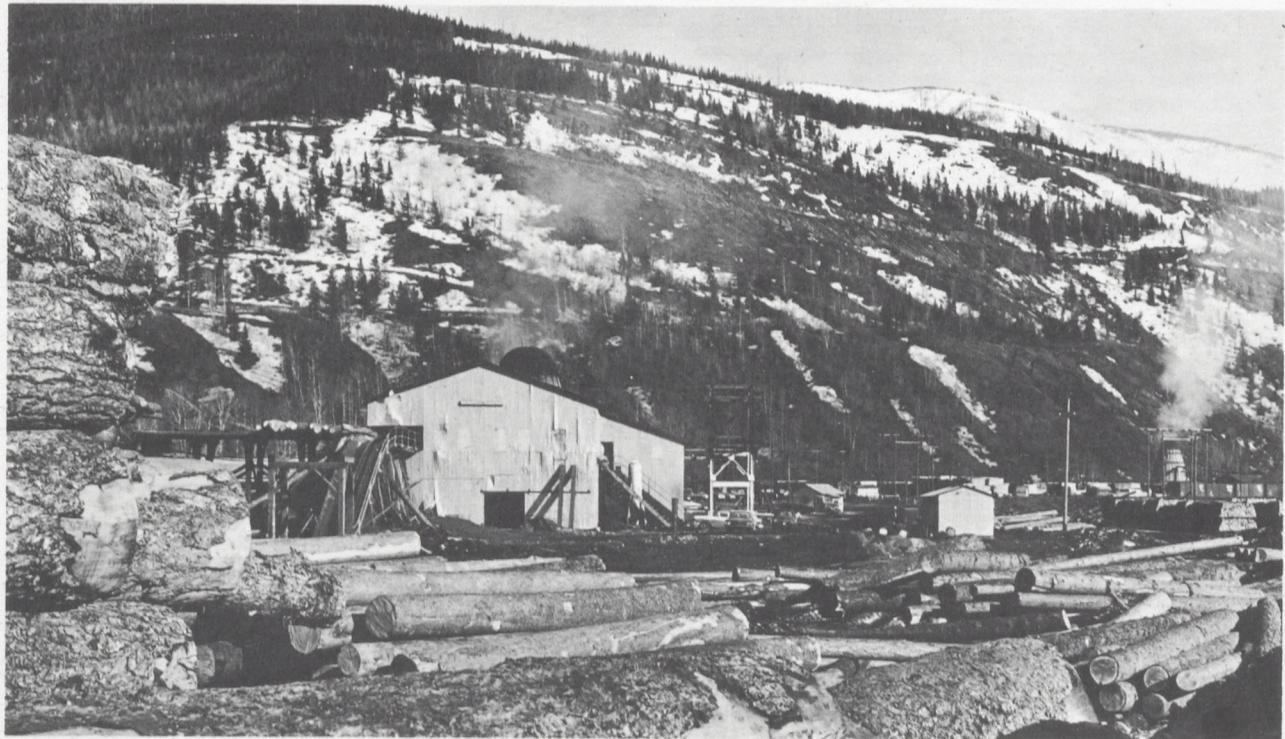
24,305 shares of the Company's capital stock have been reserved under a stock option plan. Options have been granted under the plan to officers of the company to purchase 16,555 shares of capital stock at prices ranging from \$12.00 to \$20.00 per share. The options are exercisable in annual instalments on a cumulative basis while in the employ of the company.

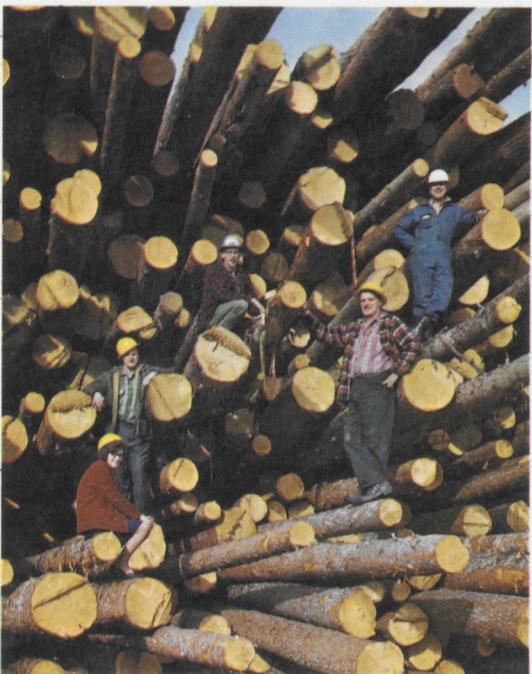
THE CROW'S NEST PASS COAL COMPANY, LIMITED
 AND
THE CROW'S NEST PASS OIL & GAS COMPANY, LIMITED
(WHOLLY-OWNED SUBSIDIARY)

Statistical Summary of Oil and Gas Operations from Inception to December 31, 1964

	The Crow's Nest Pass Coal Company, Limited	The Crow's Nest Pass Oil & Gas Company, Limited	Total
We have expended to December 31, 1964—			
On acquisition of oil and gas properties -----	\$ 1,242,463	\$ 15,577	\$ 1,258,040
On drilling and development -----	1,574,056	1,126,766	2,700,822
On plant and equipment -----	804,098	343,071	1,147,169
	<u>\$ 3,620,617</u>	<u>\$ 1,485,414</u>	<u>\$ 5,106,031</u>
Balance of plant and equipment available for capital cost allowance under the Income Tax Act -----	\$ 120,104	\$ 36,593	\$ 156,697
Balance of drilling and development available for write-off under the Income Tax Act -----	nil	nil	nil
For this expenditure we have acquired net percentage interests as shown:			
Pembina-Buck Lake Area ----- 193 wells	2.953 %	3.375 %	6.328 %
Pembina-Buck Lake Area ----- 5 wells	1.969 %	2.250 %	4.219 %
Section 13 Buck Creek Unit ----- 8 wells	10. %		10. %
Minnehik Gas Unit ----- 5 wells	0.50596%	0.57825%	1.08421%
North Pembina Cardium Unit No. 1 -----	0.14502%		0.14502%
Burbank Joffre Area Viking Unit ----- 49 wells	4.569 %		4.569 %
Nisku D2 ----- 1 well	15. %		15. %
	7 wells	20. %	20. %
Nevis Gas Unit ----- 11 wells	0.689 %		0.689 %
Stettler Unit ----- 92 wells		0.2535 %	0.2535 %
Swan Hills Unit -----	0.186 %		0.186 %
Alhambra ----- 2 wells	6.666 %		6.666 %
Various holdings of undeveloped and non-producing properties			
Our original drilled reserves (as estimated by our associates in oil operations) were -----	bbls.	bbls.	bbls.
Recovered to date -----	4,899,402	3,293,365	8,192,767
	<u>1,573,748</u>	<u>956,965</u>	<u>2,530,713</u>
Balance of reserves at December 31, 1964 -----	<u>3,325,654</u>	<u>2,336,400</u>	<u>5,662,054</u>
Our Net Income after deduction of operating expenses but before write-off of drilling and development, depletion and depreciation amounted to:			
1955 and prior -----	\$ 132,546	\$ 165,338	\$ 297,884
1956 -----	321,036	290,031	611,067
1957 -----	348,536	219,168	567,704
1958 -----	312,995	166,221	479,216
1959 -----	294,863	163,901	458,764
1960 -----	319,487	146,415	465,902
1961 -----	333,266	158,881	492,147
1962 -----	300,555	149,261	449,816
1963 -----	328,378	154,987	483,365
1964 -----	328,967	153,982	482,949
	<u>\$ 3,020,629</u>	<u>\$ 1,768,185</u>	<u>\$ 4,788,814</u>

THE CROW'S NEST PASS COAL COMPANY, LIMITED





We have recently expanded our Forest Products Division, and the pictures on these two pages show various logging operations at or near our Natal mill. The picture top left of office, forestry and operating personnel recognizes that it takes more than lumber to make a logging operation.



B45947